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Income Commission

des prix et des revenus

A

February 3, 1971.

General publications

NEWSPAPERS

Prices and Incomes Commission

John H. Young
Chairman

Bertram G. Barrow
Commissioner

George E. Freeman
Commissioner

George V. Haythorne
Commissioner

202703-1



Canada

Prices and incomes commission

Commission des prix et des revenus

A

February 3, 1971.

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NEWSPAPERS

Prices and Incomes Commission

Ministers. Held in Ottawa

Heads of Government

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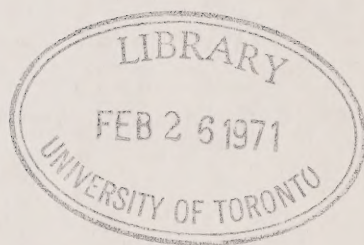
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advertising and




FOREWORD

At the National Conference on Price Stability held in Ottawa on Feb. 9-10, 1970, there was broad agreement that business firms generally, if called upon to do so, would reduce the number and size of price increases they would normally make in 1970 and would ensure that price increases were clearly less than the amount needed to cover increases in costs in that year.

At a Federal-Provincial Conference of First Ministers, held in Ottawa on Feb. 16-17, 1970, the Heads of Government endorsed the Commission's plan. Governments expressed the hope that sanctions would not be required but agreed that if necessary they would use such means as are within their control to deal with cases of serious non-compliance with the pricing criteria.

This report deals with increases in newspaper advertising and subscription rates introduced during 1970.



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NEWSPAPERS

Introduction

Early in 1970 the Prices and Incomes Commission began to receive letters from across Canada complaining of newspaper price increases. Some newspaper publishers also wrote directly to the Commission to report price changes. By mid-summer it was known that many advertising rates had also been adjusted. It became clear that a preliminary review should be conducted in order to learn the extent of the price increases and to gain some understanding of the newspaper publishing industry. The results showed that increased advertising and subscription rates were widespread in 1970 and it was decided to undertake a full-scale price review.

Practical limits had to be drawn around the study because of the complexity of the newspaper publishing industry and the existence of a large number of companies. It was agreed that all major metropolitan daily newspapers should be included, either as individual companies or as members of a newspaper chain. Where larger organizations own weekly newspapers as well as dailies, the entire group is included. It was not considered feasible to examine separately each of the newspapers owned by the major chains, and the price criteria have therefore been applied to the chains as financial units.

Background

As the study was concerned primarily with newspapers, the Commission requested from each organization detailed information relating to newspaper operations only. A small amount of in-house job printing was included, but broadcasting, television and other activities were excluded. Some additional information was requested from public companies on a consolidated basis, in order to show the relationship of newspaper publishing to other corporate activity.

This review encompasses a total of 13 newspaper organizations which own or control 65 daily newspapers representing roughly 75 per cent of Canadian circulation. These same organizations also own or control 33 Canadian weekly newspapers. One of the companies operates newspapers in the United States but these holdings were specifically excluded from the financial reports requested.

The companies included in this study are listed below:

	<u>Dailies</u>	<u>Weeklies</u>
1. Pacific Press Ltd. (Vancouver)	2	
2. Armadale Co. Ltd. (Regina, Saskatoon)	2	
3. F.P. Publications Ltd.	7	1
4. Thomson Newspapers Ltd.	30	15
5. Southam Press Ltd.	10	1
6. Telegram Publishing Co. Ltd. (Toronto)	1	7
7. Toronto Star Ltd.	2	9
8. Montreal Star Ltd.	1	
9. La Fédération des Journalistes Canadiens Inc. (Montréal-Matin, Montréal)	1	

	<u>Dailies</u>	<u>Weeklies</u>
10. L'Imprimerie Populaire Ltée (Le Devoir, Montréal)	1	
11. La Compagnie de Publication de La Presse Ltée (La Presse, Montréal)	1	
12. New Brunswick Publishing Co. Ltd. (Saint John, Moncton, Fredericton)	5	
13. The Halifax Herald Ltd.	<u>2</u>	<u>—</u>
	<u>65</u>	<u>33</u>

Financial data on revenues, costs and profits were obtained for the years 1966 through 1969, together with a projection for the full year 1970 based on actual results available for the year to date. The projected 1970 results were compared with those in the base year, which was 1969 with one exception. With respect to that one exception, a substantial modernization program in 1969 led to sub-normal profit performance and 1968 was chosen as the base period.

Revenues and Costs

The newspaper industry realizes higher profits in relation to sales and equity than most other industries. Average profits before tax for the industry have ranged from 23 to 30 per cent of equity in recent years. In relation to sales, such profits have varied from 12.9 to 15.8 per cent. Because retained earnings have been large, equity has grown considerably and long-term debt for most companies has been diminished appreciably. In the few instances where debt has increased, this development has usually been associated with the acquisition of other newspapers by an existing chain.

Average Revenue and Costs
Expressed In
Cents Per Copy

	<u>1969</u>	<u>1970</u>
Revenue		
Advertising	23.2	23.1
Subscriptions	7.9	8.2
Other	<u>1.7</u>	<u>1.9</u>
Total Revenue	32.8	33.2
Costs		
Raw Material	6.6	6.4
Wages and Salaries	13.2	13.9
All Other Costs	<u>7.8</u>	<u>8.2</u>
Total Costs	<u>27.6</u>	<u>28.5</u>
Profit Before Tax	5.2	4.7

The table shows that advertising accounts for 70 per cent of the revenue for a typical Canadian newspaper. The table also shows that wages and salaries make up approximately one-half and raw material (largely newsprint) one-fourth of the costs of producing a newspaper.

Roughly half of the newspapers included in this study have increased some subscription rates or some advertising rates or both during 1970. Very few companies have increased prices broadly in a way that could be considered "across the board". Some of the increases are substantial in percentage terms, but apply to a small amount of business or were introduced late in the year. As a result, they often produce relatively little additional revenue in 1970.

Newspapers are priced on a daily, weekly, monthly, quarterly or annual basis. This study has found that only a very few newspapers have increased daily, week-end edition, monthly or quarterly rates; but a substantial number, roughly 25 per cent, have increased weekly and/or annual rates. The weekly rate increases have ranged from 8-20 per cent with the average being about 12 per cent. The annual rate increases have been larger, ranging from 20-60 per cent with the average being about 40 per cent. A relatively small percentage of the total Canadian daily circulation is sold on an annual basis.

Annual subscriptions have generally been delivered by the postal service. Large percentage increases in annual rates have been implemented by newspapers in response to postal rate increases effected during 1969 and 1970. Newspaper mailing rates were increased by different amounts, depending chiefly on the weight of the paper and the percentage of total lineage in advertising. Three increases were implemented between April 1, 1969, and April 1, 1970. The postage charge for the advertising component was increased from four cents per pound to 15 cents per pound and the charge for the news component was increased from $2\frac{1}{2}$ cents per pound to five cents per pound. In one large metropolitan daily the average mailing cost increased by approximately 10 cents per copy, and in many cases the new rate is three times higher than it was prior to April 1, 1969. In most instances, the publishing companies have recovered less than the full increase in postal rates through higher annual subscription charges to customers.

An analysis of all the newspapers included in this study shows that their combined revenues derived from subscriptions will increase by four per cent in 1970 as compared with 1969. Of that amount, increased circulation will contribute 2.5 per cent and higher subscription rates will contribute 1.5 per cent.

Advertising rates are generally broken into three categories: National, local and classified. Each of the categories may carry a different prime rate as well as special rates and frequency and volume discounts. Roughly half of the newspapers included in the study have increased advertising rates. The increases have ranged from 3-12 per cent with the average being about 7.5 per cent. Notwithstanding these price increases, advertising revenue of all the newspapers combined will increase by less than one per cent in 1970. This paradox is explained by the general softening in the nation's economy, to a lengthy strike in one large company, and to a decline in the share of the higher revenue-producing lineage.

Every organization incorporated in this review has experienced a substantial increase in wage and salary rates this year. The total of wage and fringe benefit increases has varied in the newspaper publishing industry, with the average increase being approximately nine per cent, while the total wage and salary bill increased by about six per cent in 1970. The difference in these two figures is accounted for by the fact that settlements were scattered throughout the year and by some apparent improvements in efficiency.

Newsprint represents almost all of a newspaper's material costs. Canadian prices are closely related to the New York price in U.S. funds; this price was increased on Jan. 1, 1970, from \$147 to \$152 per ton or by 3.4 per cent. However, data provided by the Canadian newspaper publishing companies indicate that the average delivered cost in Canada did not increase by this amount although there was some price increase. This development reflects a period of over-supply in the newsprint industry during 1970.

Some comment is necessary regarding two of the larger newspaper publishers because of an apparent conflict between their published financial statements and the findings cited below.

The Thomson Newspapers produce the larger portion of their revenue and before-tax profits from newspaper operations in the United States. While the company makes no separation in its published statement as to the location and source of its revenues and profits, our study required such a separation in order that the results of the Canadian operations could be identified. The Canadian operations are expected to return a higher dollar profit in 1970, but this is due to a strike at one of their larger papers during 1969, which reduced base-year earnings, and the acquisition of four dailies during 1970, which contributed to higher revenues and earnings in 1970 compared with 1969. Notwithstanding the larger Canadian earnings in absolute dollars in 1970, the percentage of net profit to revenue is lower than in 1969.

The Toronto Star as a corporate organization is expected to show increased profits in its 1970 published financial statement. The improvement does not result from a higher return from newspaper operations. It derives from a reduction of the loss experienced by the company's commercial printing operation during 1969. Further, a reduction of pension plan expense following an actuarial revaluation and the accounting treatment of severance pay expense in 1970 has increased 1970 profits as compared with 1969.

Conclusion

The net effect of the price and cost increases in aggregate for all the newspapers included in this review has been a reduction in profits before tax of nine per cent in absolute dollars and a similar reduction in the return on the sales dollar. As a result, profits before tax for the companies reviewed declined from \$54,991,000 in 1969 to \$49,966,000 in 1970. This still provides a relatively high rate of return on investment in the industry, although there is a wide difference in the performance of individual companies.

The criteria have been applied separately to each of the 13 organizations listed earlier, and in all cases they have projected greater cost increases than revenue increases during 1970. Actual financial results made available for the year to date confirm these projections. These companies have, therefore, met the criteria agreed to at the National Conference on Price Stability.
